

Message Text

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C O N F I D E N T I A L BONN 15192

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: GERMAN ECONOMIC POLICY

1. CONVERSATIONS WITH POLICY LEVEL OFFICIALS AT THE CHANCELLOR'S OFFICE AND THE ECONOMICS AND FINANCE MINISTRIES THIS WEEK INDICATE THAT THE GOVERNMENT IS UNLIKELY TO TAKE ANY NEW ECONOMIC POLICY DECISIONS UNTIL AT THE EARLIEST ABOUT THE MIDDLE OF NOVEMBER AND BEFORE THEN IS UNLIKELY TO EVEN REEXAMINE EXISTING POLICIES. MINISTERS NOW ARE FULLY ENGAGED IN THE ELECTION CAMPAIGN AND IN BONN AT BEST FOR ONE DAY EACH WEEK. AFTER THE ELECTION ON OCTOBER 4, TOP LEVEL ENERGY WILL GO INTO THE NEGOTIATIONS CONCERNING THE FORMATION OF A NEW GOVERNMENT AND/OR THE NEW COALITION AGREEMENT AND GOVERNMENT DECLARATION. ONLY AFTER THESE ARE OUT OF THE WAY CAN THE CABINET AGAIN BE EXPECTED TO FACE MAJOR ECONOMIC POLICY QUESTIONS--
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PRIOR TO THAT TIME ONLY THE BUNDESBANK IS ORGANIZED

TO TAKE POLICY ACTIONS, POSSIBLY AN INCREASE IN
MINIMUM RESERVE REQUIREMENTS TO BRING THE GROWTH OF
MONETARY AGGREGATES BACK INTO LINE WITH ITS TARGET.

2. POLICY OFFICIALS ARE NOT UNHAPPY, HOWEVER, WITH
THIS STATE OF AFFAIRS, AT LEAST AS FAR AS OVERALL
DOMESTIC ECONOMIC POLICY IS CONCERNED. THEY PREFER,
IN ANY CASE, TO WAIT AT LEAST FOR SEPTEMBER DATA TO
HELP CLARIFY IF THE CURRENT ECONOMIC SLOWDOWN IS
ONLY A TEMPORARY PAUSE OR STATISTICAL ABERRATION OR
WHETHER IT REPRESENTS A MORE FUNDAMENTAL WEAKNESS IN
THE RECOVERY. THEY ARE CONFIDENT THAT 1976 ECONOMIC
GROWTH WILL BE IN THE 5.8 - 6.2 PERCENT RANGE. THE
POLICY QUESTION TO BE RESOLVED AFTER THE MIDDLE OF
DECEMBER IS WHETHER ADDITIONAL STIMULUS IS NEEDED
FOR 1977 AND WHAT COMBINATION OF RATES OF PRICE
INCREASES AND ECONOMIC GROWTH POLICY SHOULD AIM FOR.
IT IS IN THIS CONTEXT THAT THE CURRENT "PROJECTION"
FOR 1977 AND THE BUNDESBANK OBJECTIONS TO THE
PRELIMINARY BUDGET PLANNING FIGURES OF 10 PERCENT
NOMINAL GNP GROWTH MUST BE SEEN.

3. COMMENT: WHILE OUR DISCUSSIONS FOCUSED ON
GENERAL DOMESTIC POLICY, THE GOVERNMENT'S INABILITY
OR AT LEAST STRONG DISINCLINATION FOR NEW POLICY
DECISIONS BEFORE AT THE EARLIEST IN THE MIDDLE OF
NOVEMBER OR MORE LIKELY AFTER THE CHRISTMAS HOLIDAYS
OBVIOUSLY ALSO EXTENDS TO FOREIGN ECONOMIC POLICY
DECISIONS.
HILLENBRAND

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